

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6307

BILL NUMBER: SB 119

DATE PREPARED: Nov 8, 2001

BILL AMENDED:

SUBJECT: EDGE Tax Credits for Job Preservation.

FISCAL ANALYST: Jim Landers

PHONE NUMBER: 232-9869

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: The bill allows a person who proposes a project to preserve jobs in Indiana to apply for an Economic Development for a Growing Economy (EDGE) tax credit. It also allows the EDGE Board to enter into an agreement for a tax credit with an applicant whose project will preserve jobs in Indiana. The bill also requires the Board to find the existence of certain conditions before entering into an agreement with the applicant for a tax credit.

Effective Date: July 1, 2002.

Explanation of State Expenditures: This bill may increase the amount of EDGE credits awarded annually as a greater number of businesses would be eligible for the credit. Currently, only projects creating new jobs are eligible for EDGE credits. Under this proposal, projects that would preserve jobs also are eligible. This broader eligibility may expand the applicant pool, creating additional administrative demands on the Indiana Department of Commerce (IDOC) which provides administrative support to the EDGE Board. The Department should be able to meet these demands given its current budget and resources. The October 2, 2001, state manning table indicates that the Lieutenant Governor's Office has 23 vacant full-time positions.

The State Budget Agency (SBA) is also required to certify that EDGE credit awards will provide an overall positive fiscal impact to the state. An expanded applicant pool may increase the number of EDGE studies performed by the SBA, however, the impact is not expected to be significant.

Explanation of State Revenues: The EDGE program is designed to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Businesses receive credits equal to the individual income taxes withheld for employees filling the newly created positions. Since revenue from these employees would not have been collected in the absence of the new development, the state does not incur a net loss by redistributing the incremental income tax revenue as tax credits to businesses.

This bill extends eligibility for EDGE credits to businesses that, in the face of more profitable alternatives,

elect to maintain their current investment and employment levels in Indiana. Under this scenario, the amount of EDGE credits granted would be based on withholding taxes for employees whose jobs are being retained (although the EDGE Board would have final approval of the actual amount). No new revenue would be realized since no new jobs would be created. Credits would then be paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits granted to these businesses. However, if the firm chose a more profitable alternative and moved out of Indiana, there could be an even greater loss of revenue from the reduction in individual (employees) and corporate taxes.

EDGE credits may be taken against a taxpayer's Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Bank Tax, Savings and Loan Association Tax, Insurance Premium Tax, or Financial Institutions Tax liabilities. The duration of the credit may not exceed ten taxable years. In 2000, the EDGE Board approved approximately \$63 M in new credits (to be used over several years) for 16 projects. The projects are expected to create 6,382 new jobs with an annual payroll of approximately \$308.8 M. From 1994 to 2000, EDGE credits have been approved for 72 projects. During those years, approximately \$46.2 M in EDGE credits were made available, with the total amount of credits certified so far equal to about \$25.1 M. Approximately \$21.9 M in EDGE credits are available for approved projects in tax year 2001.

Both individual and corporate income taxes are distributed to the General Fund. A percentage of corporate Adjusted Gross Income Tax revenue is also distributed to the Property Tax Replacement Fund. This bill may impact revenue collections beginning in FY 2003.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Department of Commerce, State Budget Agency.

Local Agencies Affected:

Information Sources: Indiana Department of Commerce, 2000 EDGE Annual Report, March 30, 2001.